

FOWLERVILLE DISTRICT LIBRARY  
47-8002  
FINANCIAL REPORT  
June 30, 2004

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-6
BASIC FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet/Statement of Net Assets	7
Statement of Governmental Revenue, Expenditures and	
Changes in Fund Balance/Statement of Activities	8
Notes to financial statements	9-16
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	17

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name FOWLERVILLE DISTRICT LIBRARY	County
Audit Date JUNE 30, 2004	Opinion Date AUGUST 16, 2004	Date Accountant Report Submitted to State: NOVEMBER 2, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on the financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan*.
2. We are certified public accountants registered to practice in Michigan.

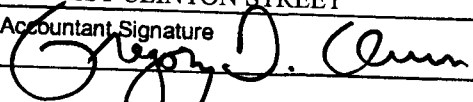
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BREDERNITZ, WAGNER & CO., P.C.			
Street Address 109 WEST CLINTON STREET	City HOWELL	State MI	ZIP 48843
Accountant Signature 			

**BREDERNITZ, WAGNER & CO., P.C.**

*Certified Public Accountants*

109 WEST CLINTON STREET

HOWELL, MICHIGAN 48843

(517) 546-2130

FAX (517) 546-3552

1

PRINCIPALS

RAYMOND H. COOPER, JR., CPA, CFP  
GREGORY D. CLUM, CPA, CGFM

CONSULTANTS

DAVID L. BREDERNITZ, CPA  
HERBERT P. WAGNER, JR., CPA

MEMBERS

MICHIGAN ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
the Fowlerville District Library  
Fowlerville, Michigan

We have audited the accompanying financial statements of the Fowlerville District Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fowlerville District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fowlerville District Library as of June 30, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Fowlerville District Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2003.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fowlerville District Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Brackert, Wagner & Co., P.C.*

Howell, Michigan  
August 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2004  
(Unaudited)

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *Government-Wide Financial Statement* columns provide both *long-term* and *short-term* information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remain for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

FOWLerville DISTRICT LIBRARY

4

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
For the Year Ended June 30, 2004  
(Unaudited)

Condensed Financial Information

The table below shows key financial information in a condensed format:

Current assets	\$540,488
Capital assets	<u>218,246</u>
Total assets	758,734
Current liabilities	<u>7,442</u>
Net assets:	
Invested in capital assets	218,246
Unrestricted	<u>533,046</u>
Total net assets	<u>\$751,292</u>
Revenue:	
Property taxes	166,336
Other	<u>104,145</u>
Total revenue	270,481
Expenses - Library services	<u>227,534</u>
Change net assets	<u>\$ 42,947</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
For the Year Ended June 30, 2004  
(Unaudited)

The Library as a Whole

- The Library is reporting financial statements this year that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense. This includes all Library materials, which were previously recorded at \$1 per item in the General Fixed Assets Account Group, which was generally accepted practice among Libraries in Michigan.
- As a result of this change, the Library reports net assets of \$751,292 this year on a full accrual basis, as compared to \$533,046 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For the year ended June 30, 2004, total tax collections were \$166,336. This represents approximately 61.5 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For the year ended June 30, 2004, this expenditure was \$136,586, representing 60 percent of the Library's total expenditures.
- Depreciation expense, which represents 19 percent of the Library's total expenses, is new to the Library, with the implementation of GASB 34.
- Total expenditures for the entire year under the modified accrual method of accounting were \$237,830.
- The Library's conversion to meet GASB 34 Standards, which includes capitalization of Library owned assets and associated depreciation expense is reflected in the Statement of Activities on page 9 of the financial report.

The Library's Fund

Our analysis of the Library's General fund is included on pages 8 and 9 in the first column of the respective statements. The fund column provides detailed information about the General fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, - not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Library's only fund is the General Fund.

- The fund balance of the General Fund increased during the current year by \$32,651. This represents unspent revenue greater than expenses.

FOWLERVILLE DISTRICT LIBRARY

6

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)  
For the Year Ended June 30, 2004  
(Unaudited)

Library Budgetary Highlights

The Library Board did not amend the budget during the year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$218,246 invested in land, building, furniture and equipment, and books and materials. During the year the Library added \$39,969 in new collection items consisting of new books, various audio/visual materials, and enhancement of the music collection.

Next Year's Millage Rates

The Library's millage rate for the upcoming year will remain at 0.418 mills. Based on the taxable value of property in the Library's district, this will generate approximately \$187,500 in tax revenue.

In future years, when prior year information is available, a comparative analysis of government wide data will be presented.



FOWLerville DISTRICT LIBRARY  
GOVERNMENTAL FUND BALANCE SHEET /  
STATEMENT OF NET ASSETS  
June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 7)	Statement of Net Assets
<b>Assets</b>			
Cash and investments (Note 3)	\$ 539,711	-	539,711
Accrued interest	777	-	777
Property and equipment (Note 4)	<u>-</u>	<u>218,246</u>	<u>218,246</u>
Total Assets	<u>\$ 540,488</u>	<u>218,246</u>	<u>758,734</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,159	-	1,159
Accrued liabilities	<u>6,283</u>	<u>-</u>	<u>6,283</u>
Total Liabilities	<u>7,442</u>	<u>-</u>	<u>7,442</u>
<b>Fund Balance/Net Assets</b>			
Fund balances - Unreserved:			
Undesignated	<u>533,046</u>	<u>(533,046)</u>	<u>-</u>
Total Fund Balance	<u>533,046</u>	<u>(533,046)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 540,488</u>		
<b>Net Assets:</b>			
Invested in capital assets		218,246	218,246
Unrestricted		<u>533,046</u>	<u>533,046</u>
Total Net Assets	<u>\$ 751,292</u>		<u>751,292</u>

The notes to Financial Statements are an integral part of this statement.

FOWLERVILLE DISTRICT LIBRARY  
STATEMENT OF GOVERNMENTAL REVENUE,  
EXPENDITURES, AND CHANGES IN  
FUND BALANCE / STATEMENT OF ACTIVITIES  
June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 7)	Statement of Activities
Revenue			
Property taxes	\$ 166,336	-	166,336
State aid	14,641	-	14,641
Charges for services	6,219	-	6,219
Investment income	13,485	-	13,485
Contributions	894	-	894
Fines and forfeitures	68,906	-	68,906
Total Revenues	<u>270,481</u>	<u>-</u>	<u>270,481</u>
Expenditures			
Salaries and fringe benefits	136,586	-	136,586
Supplies	10,003	-	10,003
Dues, fees and memberships	2,676	-	2,676
Library books and materials	39,969	(39,969)	-
Professional and contractual services	6,676	-	6,676
Training and education	1,508	-	1,508
Insurance	4,348	-	4,348
Utilities	8,703	-	8,703
Repairs and maintenance	6,205	-	6,205
Building improvements, non-capital	3,197	-	3,197
Building improvements capital outlay	7,870	(7,870)	-
Equipment, non-capital	3,565	-	3,565
Equipment capital outlay	6,524	(6,524)	-
Depreciation	-	44,067	44,067
Total Expenditures	<u>237,830</u>	<u>(10,296)</u>	<u>227,534</u>
Excess of Revenues Over Expenditures/Change in Net Assets	32,651	10,296	42,947
Fund Balance/Net Assets - Beginning of year	<u>500,395</u>	<u>207,950</u>	<u>708,345</u>
Fund Balance/Net Assets - End of year	<u>\$ 533,046</u>	<u>218,246</u>	<u>751,292</u>

The notes to Financial Statements are an integral part of this statement.

## NOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

## Definition of the reporting entity:

The Fowlerville District Library (the "Library") was organized in 1994 under the provisions of the Michigan District Library Establishment Act, Public Acts 24 of 1989. The Library serves the Fowlerville Consolidated School District, which includes Handy Township and portions of Iosco, Conway, Howell, Cohoctah and Unadilla Townships. In addition, the Library provides library services to portions of White Oak, Locke and Antrim Townships that are not included in the School District. The Library is governed by a seven member board of trustees elected at large from the Fowlerville Consolidated School District.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements present the Fowlerville District Library. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

## Basis of presentation:

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

## Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded in one fund as follows:

## Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

## Governmental Fund:

General Fund: This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Fowlerville District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

GASB No. 34:

Effective July 1, 2003, the Library implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion on Analysis - for State and Local Governments*. Certain significant changes in the statements include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Library's activities

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

## Measurement focus/basis of accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Fowlerville District Library conform to generally accepted accounting principles as applicable to governmental units.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund

The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Compensated absences (vacation and sick leave):

Full-time Library employees earn vacation time in various amounts based on length of service. Sick leave is earned by full-time employees at a rate of  $\frac{1}{2}$  day per month of service. No payment is made for unused, accumulated sick leave or vacation time upon separation. Unused sick leave and vacation time is immaterial in amount at year end. Therefore, no liability is accrued for accumulated sick leave or vacation time.

Current property taxes:

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 State equalized valuation of the Library totaled \$569,140,058. The State taxable valuation of the Library totaled \$403,354,331 on which ad valorem taxes levied consisted of 0.418 mills raising \$166,336 for operating purposes.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

## Capital Assets:

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

## Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## Budgets and budgetary accounting:

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. There were no amendments to the original budget during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

## Note 3. CASH AND CASH INVESTMENTS

Deposits are carried at cost. Deposits are in three financial institutions in the name of the Fowlerville District Library. The Fowlerville District Library's investment policy authorizes the Library Treasurer to invest in the following types of securities:

## Note 3. CASH AND CASH INVESTMENTS (Concluded)

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Library shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the investment company act of 194, title I of chapter 686. 54 State/ 890. 15 I/S/C/ 9-a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118,
- E. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

At year-end, the carrying amount of the Library's deposits were \$539,686 and the respective bank balance totaled \$542,995 of which \$242,995 was covered by Federal Depository Insurance. The difference between the carrying amount of the Library's deposits and the respective bank balance represents checks written during the year but not yet presented for payment. The library also had \$25 in imprest cash at year-end. All of the Library's deposits were made in accordance with the investment policy.

## Note 4. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Building	\$ 105,271	-	-	105,271
Building Improvements	13,790	-	-	13,790
Computers	10,621	7,890	-	18,491
Furniture and Equipment	50,447	6,524	-	56,971
Library books and Materials	<u>328,839</u>	<u>39,969</u>	<u>31,895</u>	<u>336,913</u>
Total	508,968	54,363	31,895	531,436
Accumulated Depreciation	<u>(301,018)</u>	<u>(44,067)</u>	<u>31,895</u>	<u>(313,190)</u>
Net Book Value	\$ <u>207,950</u>	<u>10,296</u>	<u>-</u>	<u>218,246</u>

## Note 5. PENSION PLANS

## Defined Contribution Retirement Plan

Plan Description. Fowlerville District Library participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system that is administered by the state of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the state of Michigan. The Library has no fiduciary responsibility for the plan.

Pension Benefit Obligation. The Pension Benefit Obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The unfunded pension benefit obligation was \$13,213 at December 31, 2003, determined as follows:

Retirees and beneficiaries currently  
receiving benefits

\$ -

Terminated employees not yet receiving  
benefits

-



## Note 5. PENSION PLANS (Concluded)

Current employees -	
Accumulated employee contributions	
including allocated investment income	\$20,476
Employer Financed	<u>66,412</u>
Total Actuarial Accrued Liability	86,888
Net assets Available for Benefits at	
Actuarial Value (Market Value is \$46,489)	<u>73,675</u>
Unfunded Pension Benefit Obligation	<u>\$13,213</u>

## Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date	Accrued Liabilities	Valuation Assets	Funded Percent	Unfunded Actuarial Liability	UAL as of Percentage of Annual Payroll
12/31/2001	\$56,228	\$47,384	84.30%	\$ 8,844	14.75%
12/31/2002	68,511	58,504	85.39	10,007	16.0
12/31/2003	86,888	76,675	84.79	13,213	19.0

## Note 6. RISK MANAGEMENT

The Fowlerville District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefit provided to employees.

The Library's coverage on general liability is \$1,000,000 with a liability limit of \$1,000,000. The Library's coverage on software and equipment is \$5,000 and \$10,000, respectively, after a \$250 deductible per occurrence. The Library's coverage on public officials' liability is \$500,000 with a liability limit of \$500,000. Any liability for losses which exceed these amounts would remain with the Library.

Note 7. RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$ 533,046
---	------------

Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	<u>218,246</u>
---	----------------

Net Assets of General Fund - Full Accrual Basis	<u>\$ 751,292</u>
---	-------------------

Net Change in Fund Balances - Modified Accrual Basis	\$ 32,651
--	-----------

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in statement of revenue, expenditures, and changes in fund balance, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	39,969
Capital outlay	14,394
Depreciation	<u>(44,067)</u>

Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 42,947</u>
---	------------------

FOWLerville DISTRICT LIBRARY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2004

	Original Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 173,298	166,336	(6,962)
State aid	12,000	14,641	2,641
Charges for services	6,575	6,219	(356)
Investment income	8,200	13,485	5,285
Contributions	15	894	879
Fines and forfeitures	69,000	68,906	(94)
Total Revenues	269,088	270,481	1,393
Expenditures			
Salaries and fringe benefits	159,249	136,586	22,663
Supplies	12,450	10,003	2,447
Dues, fees and memberships	3,757	2,676	1,081
Library books and materials	38,000	39,969	(1,969)
Professional and contractual services	9,900	6,676	3,224
Training and education	4,000	1,508	2,492
Insurance	6,000	4,348	1,652
Utilities	7,000	8,703	(1,703)
Repairs and maintenance	7,000	6,205	795
Building improvements capital outlay	44,186	17,591	26,595
Equipment capital outlay	8,000	3,565	4,435
Total Expenditures	299,542	237,830	61,712
Excess of Revenues Over Expenditures	(30,454)	32,651	63,105
Fund Balance - Beginning of year	30,454	500,395	469,941
Fund Balance - End of year	\$ -	533,046	533,046

**BREDERNITZ, WAGNER & CO., P.C.**

*Certified Public Accountants*

109 WEST CLINTON STREET  
HOWELL, MICHIGAN 48843  
(517) 546-2130  
FAX (517) 546-3552

PRINCIPALS

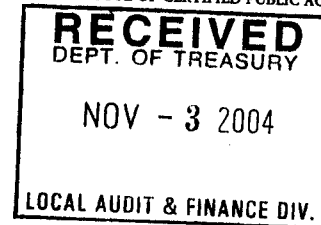
RAYMOND H. COOPER, JR., CPA, CFP  
GREGORY D. CLUM, CPA, CGFM

CONSULTANTS

DAVID L. BREDERNITZ, CPA  
HERBERT P. WAGNER, JR., CPA

MEMBERS

MICHIGAN ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



To the Board of Trustees of  
The Fowlerville District Library  
Fowlerville, Michigan

In planning and performing our audit of the financial statements of the Fowlerville District Library for the year ended June 30, 2004, we considered the Fowlerville District Library's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 16, 2004 on the financial statements of the Fowlerville District Library. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the accompanying memorandum.

We appreciate the assistance provided to us by the staff of the Fowlerville District Library. This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

*Bredernitz, Wagner & Co., P.C.*

Howell, Michigan  
August 16, 2004

Status of prior year recommendation:

1. We found that contribution revenue to be used to purchase equipment was recorded as an offset against the equipment expenditure account.

Although the contribution was given for the purchase of equipment, the proper accounting for this transaction would be to record the contribution as revenue. The offsetting of the revenue against the equipment expenditure account, as originally recorded, results in an understatement of contribution revenue and equipment expense. Recording the contribution to the revenue account results in a proper presentation of revenues and expenses.

Status: This recommendation has been implemented.

Current year recommendations:

1. Contractors provided services to the Library during the year but were not issued 1099's at year end by the Library.

Any noncorporate entities that provide services to the Library at the end of the year need to be issued 1099's at year end. Any time the Library contracts for services, the name, address and federal identification number should be obtained prior to issuing payment. This will provide the Library with the information needed to issue year end 1099's and help ensure that the Library is in compliance with Internal Revenue Service reporting requirements.

2. Employees provided clean-up services to the Library for flood damage and were paid without having the appropriate taxes withheld.

The amounts paid to employees constitute wages and should have social security, medicare, federal and state tax withheld. It is important that taxes are withheld from amounts paid to employees so that the Library is in compliance with Internal Revenue Service regulations.

3. We reviewed a sample number of disbursements and found that invoices were often prepaid and that sometimes the amounts paid did not match the amount due on the invoice.

When bills are paid, a comparison should be made between the amount due and the amount actually paid. Explanation should be noted on the invoice if there is a difference between the two and the paid amount is correct. Also, Library personnel should review the process of prepaying bills to determine if it is the most efficient use of Library resources.